

Message Text

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ACTION EUR-12

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SUBJ: ECONOMIC DEVELOPMENTS

REF: LISBON 3246

SUMMARY. PRESIDENT EANES HAS URGED THE GOVERNMENT AND ASSEMBLY TO DEMONSTRATE GREATER EFFECTIVENESS IN DEALING WITH THE ECONOMY. PRESS COVERAGE OF REPORTED CONSORTIUM LOAN FAILURE DEMONSTRATES IMPORTANCE OF LOAN TO PORTUGAL'S POLITICAL FUTURE. END SUMMARY.

1. IN HIS APRIL 25 ADDRESS COMMEMORATING THE 1974 COUP, PRESIDENT EANES URGED THE GOVERNMENT AND ASSEMBLY TO DEMONSTRATE GREATER EFFECTIVENESS IN DEALING WITH THE NATION'S ECONOMIC CRISIS. SPEECH'S HIGHLIGHTS INCLUDED:

-- WARNING: THE PORTUGUESE PEOPLE WILL NOT ACCEPT INDEFINITELY THE PROGRESSIVE DETERIORATION OF THEIR STANDARD OF LIVING; THEY ARE WILLING TO SACRIFICE, BUT ONLY IF CONCRETE PROGRESS IS BEING MADE ON THE ECONOMIC FRONT;

-- RESPONSIBILITIES: IF THE ECONOMIC CRISIS IS TO BE OVERCOME, THE ORGANS OF STATE MUST DEFINE THE ECONOMIC RULES OF LIMITED OFFICIAL USE

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THE GAME "WITHOUT HESITATION OR DELAY."

-- PRIVATE SECTOR: ECONOMIC RECOVERY WILL DEPEND LARGELY UPON THE VITALITY OF THE PRIVATE SECTOR. IT IS NECESSARY TO PROMPTLY ENACT INDEMNIZATION MEASURES AND CHANNEL FUNDS THUS GENERATED INTO NEW INVESTMENT. SIMILARLY, LEGISLATION GOVERNING STRIKES AND WORKERS' ROLE IN MANAGEMENT MUST BE APPROVED RAPIDLY. PORTUGAL NEEDS THE MANA-

GERIAL AND TECHNICAL EXPERTISE WHICH FLED THE COUNTRY AFTER THE COUP.

-- ASSURANCE: THE GOVERNMENT AND ASSEMBLY CAN COUNT UPON HIM AND, IMPLICITLY, THE ARMED FORCES TO ENSURE THE ORDER NECESSARY FOR ECONOMIC RECOVERY. THOSE WHO ARE "DEMOCRATS IN THE ASSEMBLY BUT PROMOTE AGITATION AND DISRESPECT FOR THE LAW OUTSIDE IT" ARE PUT ON NOTICE. EANES WILL NOT HESITATE TO TAKE WHATEVER MEASURES ARE NEEDED FOR "NATIONAL RECOVERY."

2. CONSORTIUM LOAN COVERAGE: PRESS GAVE HEAVY COVERAGE TO MISLEADING REUTER'S REPORT INTERPRETING DEPUTY ASST. SECRETARY BOEKER'S TESTIMONY TO MEAN THAT USG HAD WRITTEN OFF CONSORTIUM LOAN AND REDUCED PROGRAMMED U.S. ASSISTANCE TO PORTUGAL FROM \$550 TO \$300 MILLION. COMMUNIST-LINING PRESS MADE THE MOST OF THE REPORT, WITH HEADLINE STORIES APRIL 28 AND 29, AND APRIL 29 EDITORIAL. NON-COMMUNIST COVERAGE WAS STRAIGHTFORWARD AND INCLUDED APRIL 28 EMBASSY DENIAL OF REPORT'S ACCURACY.

3. FINANCIAL ASSISTANCE: PORTUGUESE PRESS HAS REPORTED RECENT APPROVAL OF ADDITIONAL \$64.7 MILLION IN FINANCIAL ASSISTANCE FOR PORTUGAL, INCLUDING IMF FIRST CREDIT TRANCHE STANDBY OF \$46.6 MILLION AND \$18.1 MILLION IN EUROPEAN INVESTMENT BANK FINANCING FOR LEIXOES PORT FACILITIES.

4. TOURISM REPORTED UP: GOP STATISTICAL OFFICE HAS ANNOUNCED THAT TOURIST ARRIVALS IN FIRST THREE MONTHS LIMITED OFFICIAL USE

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OF 1977 WERE 31 PERCENT ABOVE THOSE OF SAME PERIOD IN 1976. MAJORITY OF TOURISTS WERE SPANISH, FOLLOWED BY ENGLISH, GERMANS, FRENCH, AND AMERICANS. NUMBER OF AMERICAN TOURISTS WAS UP 70 PERCENT.

5. EXCHANGE RATE: LISBON CHECK BUY RATE CLOSED APRIL 29 AT 38.58 ESCUDOS/DOLLAR.

6. COMMENT: EANES' STRONG WORDS HAVE SPARKED POLITICAL DEBATE AMONG OPPOSITION PARTIES, WHICH INTERPRET THEM AS IMPLICIT CRITICISM OF SOARES GOVERNMENT, AND SOCIALISTS, WHO SEE THEM AS ADDRESSED TO THE COUNTRY AS A WHOLE. IN ANY CASE, EANES HAS MADE IT CLEAR THAT HE EXPECTS ACTION FROM THE GOVERNMENT AND THE ASSEMBLY; FUTURE FOOT-DRAGGING BY EITHER BODY WILL BE MORE DIFFICULT, THOUGH NOT IMPOSSIBLE.

7. PRESS COVERAGE OF REPORTED CONSORTIUM FAILURE DEMONSTRATES IMPORTANCE OF LOAN TO PORTUGAL'S POLITICAL STABILITY

AND EAGERNESS OF COMMUNISTS TO EXPLOIT ANY REAL OR
PERCEIVED SLACKENING OF U.S./WESTERN EUROPEAN SUPPORT
FOR GOP. PRIME MINISTER SOARES, CURRENTLY IN STRASBOURG,
WAS QUOTED BY APRIL 29 PRESS AS HAVING REAFFIRMED THAT
CONSORTIUM LOAN IS "ESSENTIAL TO THE PRESERVATION OF
DEMOCRACY IN PORTUGAL."
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